

Message Text

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ACTION SS-25

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 8878

C O N F I D E N T I A L OTTAWA 0693

EXDIS

E.O. 11652: GDS

TAGS: MILI, DAIR, MARR, NATO, CA

SUBJECT: LOCKHEED LRPA QUESTION

REF: OTTAWA 618 AND PREVIOUS

1. IN FEBRUARY 20 CONVERSATION BETWEEN D.R. ALLAN
'DIRECTOR AEROSPACE AND ARMAMENTS CENTER, DEPARTMENT
OF SUPPLY AND SERVICES) AND TCO FOLLOWING POINTS WERE
MADE:

A. MEETING BETWEEN LOCKHEED TEAM AND GOC FEBRUARY 16
WENT WELL IN TERMS OF ALLAYING ANY LINGERING DOUBTS
ABOUT POSSIBLE PAY-OFFS AND IN PROVIDING ASSURANCES
THAT LOCKHEED WAS MAKING SERIOUS EFFORT FIND BRIDGING
FINANCE.

B. GOC OFFICIALS, HOWEVER, ARE DOUBTFUL LOCKHEED ALONE
WILL BE ABLE TO COME UP WITH THE MONEY AND EMPHASIS
NOW SHIFTED TO OBTAINING USG COMMITMENT, PROBABLY UNDER
FOREIGN MILITARY SALES (FMS) PROGRAM BUT POSSIBLY
THROUGH SOME OTHER DEVICE THAT USG MIGHT SUGGEST.
(THIS WILL BE MAIN PITCH OF GOC TEAM VISITING WASHINGTON
NEXT WEEK).

C. GOC HAS LETTER FROM USDOD (DATE NOT AVAILABLE)
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INDICATING THAT FMS FINANCING COULD BE MADE AVAILABLE

ONCE DECISION HAD BEEN MADE BETWEEN BOEING AND LOCKHEED.

D. WHEN DECISION TO CHOOSE LOCKHEED WAS MADE IN NOVEMBER, GOC DID NOT FORESEE THIS FINANCING PROBLEM. QUESTION WAS DISCUSSED WITH LOCKHEED BUT DID NOT SEEM MAJOR. HENCE, NO REASON TO SEEK FMS SUPPORT WAS PERCEIVED.

E. SOMEWHAT CONTRARY TO INFORMATION PROVIDED PARA 7 (A) OTTAWA 618, GOC HAS NO INTRINSIC OBJECTION TO SECURING EXIM FINANCING. ALL WOULD DEPEND ON HOW IT WAS HANDLED. FOR DOMESTIC POLITICAL REASONS GOC CANNOT INCREASE ITS LEVEL OF EXPENDITURES BEYOND THAT PREVIOUSLY AUTHORIZED (WHICH INCLUDES \$100 MILLION FOR INTEREST ON BORROWINGS FOR BRIDGE FINANCING) AND EMBODIED IN ESTIMATES PUBLISHED THIS WEEK. IF EXIM FINANCING WOULD AMOUNT TO A DIRECT LOAN THAT WOULD HAVE TO BE PUBLISHED AS AN ADDITIONAL EXPENDITURE, IT COULD NOT GO THAT ROUTE; BUT IF SOME OTHER EXIM APPROACH IS POSSIBLE GOC WILL CERTAINLY CONSIDER IT.

F. GOC REMAINS COMMITTED TO LOCKHEED PURCHASE AND IT WILL TAKE A MAJOR CABINET DECISION TO REVERSE IT. NEITHER THE CABINET AS SUCH NOR ITS COMMITTEE HAS YET DISCUSSED THE ISSUES ARISING OUT OF THIS FINANCIAL PROBLEM AND NO SUCH DISCUSSION IS PRESENTLY SCHEDULED. INDIVIDUAL MINISTERS HAVE BEEN BRIEFED, BUT THAT IS AS FAR AS THINGS HAVE GONE. NO ACTIVE CONSIDERATION IS BEING GIVEN-- SO FAR AS ALLAN IS AWARE -- TO ANY NEW BOEING PROPOSAL (OTTAWA 652).

G. THERE IS NO PARTICULAR CONCERN IN GOC ABOUT JAPANESE POSSIBLE CANCELLATION OF ITS ORION ORDER. THE OFFSET DEFINITELY PROMISED CANADA WOULD COME LARGELY FROM THE U.S. NAVY ORDERS WHICH DO NOT APPEAR PRESENTLY THREATENED. ORDERS FROM JAPAN AND OTHER COUNTRIES MIGHT PROVIDE ADDITIONAL OFFSET IN CANADA ONCE THE RELEVANT PRODUCTION LINES WERE SET UP HERE, BUT THIS WAS NEVER ASSURED.

H. THE BIGGEST PROBLEM THE GOC NOW FACES WITH THE CONFIDENTIAL

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LOCKHEED ORDER IS ONE OF CONFIDENCE THAT LOCKHEED CAN DELIVER. THIS IS A POLITICAL QUESTION, GIVEN THE REVELATIONS ABOUT THE PAST ACTIVITIES OF THE FIRM AND THE THREATS OF CANCELLATIONS OR OTHER REPRISAL ACTIONS FROM THIRD COUNTRIES, THE GOC MUST BE ABLE TO SATISFY PUBLIC OPINION THAT IT IS OMITTING PUBLIC FUNDS TO A FIRM WHICH WILL NOT FOLD UP PART WAY THROUGH THE DELIVERY PROCESS. THUS IT SEEKS TO INVOLVE THE USG IN THE

ARRANGEMENTS. THE FMS ROUTE APPEARS MOST PROMISING BUT IT IS OPEN TO SUGGESTIONS AS TO OTHER POSSIBLE APPROACHES.

2. COMMENT: ALLAN'S INFORMATION IS CONSISTENT WITH THAT PROVIDED POLOFF BY EXTAFF (LEGG, DEFENSE RELATIONS) WHO ON SAME DATE INDICATED GOC IS NOT AT ALL INTERESTED IN SHIFTING AIRPLANES FROM LOCKHEED TO BOEING IF IT CAN HELP IT. LEGG FURTHER ADDED THAT PART OF THE PROBLEM WAS THAT THE GOC HAD ASSUMED IT COULD PAY FOR THE LRPA LATER ON; IT HAD NOT BEEN AWARE, APPARENTLY, OF A CLAUSE IN THE CONGRESSIONAL BAIL-OUT OF LOCKHEED WHICH PROHIBITED IT FROM MAKING LOANS OF THE TYPE THE GOC EXPECTED. THUS, PART OF THE OBJECTIVE OF THE NEGOTIATIONS WOULD BE TO SEE HOW THIS PROBLEM COULD BE WORKED OUT.

3. ECONOMIC MINISTERS (MACDONALD AT FINANCE AND JAMIESON AT INDUSTRY, TRADE AND COMMERCE) CONFIRM TO ME THAT PROBLEM IS DOUBLE ONE OF (A) SHOWING THAT CANADA HAS TAKEN A NEW LOOK AFTER CHURCH COMMITTEE AND JAPANESE REVELATIONS; AND (B) ASSURING THEMSELVES THAT LOCKHEED WILL NOT GO BELLY UP AND ABORT THE CANADIAN CONTRACT AND OFFSETS SEVERAL YEARS FROM NOW. NEITHER MACDONALD NOR JAMIESON GIVES ANY INDICATION OF A POSITIVE GOC DESIRE AT THIS TIME TO SWITCH TO ANOTHER SUPPLIER OR TO BACK OUT OF THE PURCHASE OF NEW ASW PLANES. INDEED MACDONALD, WHO WAS SKEPTICAL AT THE TIME OF THE SCHLESINGER VISIT OF ANY INCREASE IN THE CANADIAN DEFENSE BUDGET, TOLD ME THAT THERE HAD BEEN NO POLITICAL REACTION AT ALL TO THE INCREASE IN SPITE OF ITS COINCIDENCE WITH WAGE AND PRICE CONTROLS HERE, AND THAT GOVERNMENT'S DECISION TO MODERNIZE ITS
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ASW AND TANK CAPABILITY IS FIRM.

4. NOTE: SECSTATE 39656 NOT RECEIVED AT TIME OF CONVERSATIONS WITH ALLAN AND LEGG.
ENDERS

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